

ACTUARIAL ANALYSIS OF THE UNPAID CLAIMS LIABILITIES AND RESERVES AS OF JUNE 30, 2014 MARICOPA COUNTY SELF-FUNDED EMPLOYEE BENEFITS PROGRAM



OCTOBER 20, 2014

Presenters

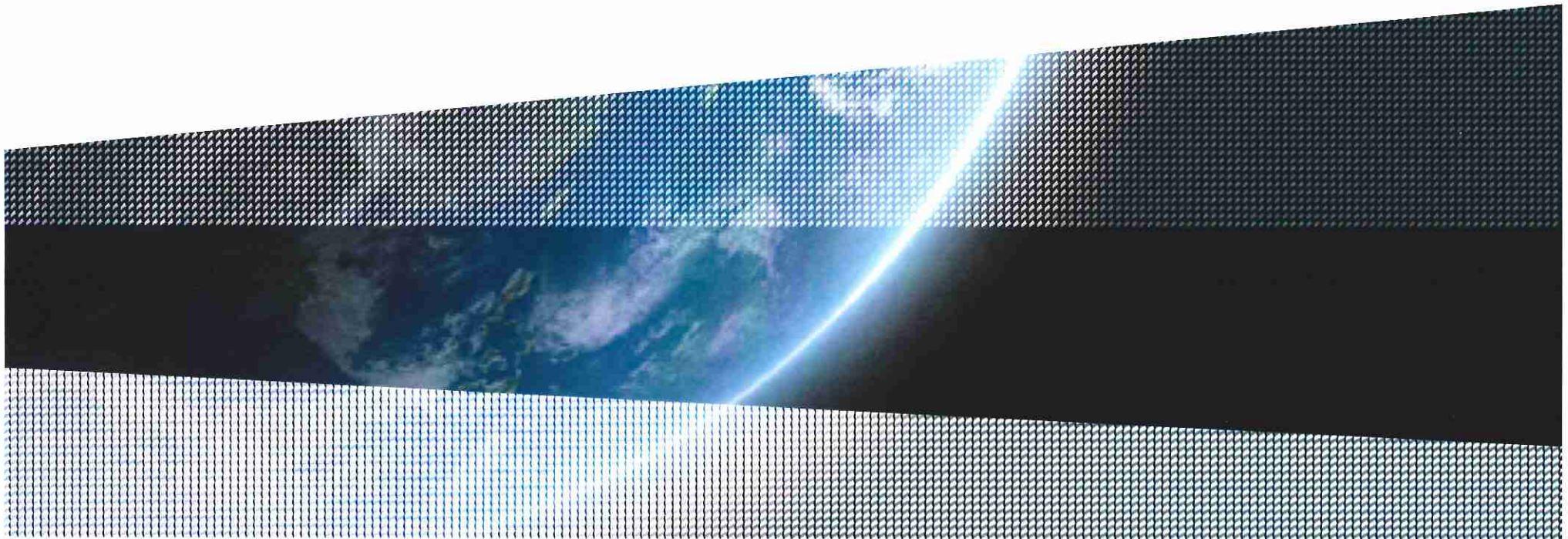
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Unpaid Claims Liabilities and Reserves as of June 30, 2014

Today's Presentation

- Purpose of today's meeting:
 - Review unpaid claims liabilities and reserves as of June 30, 2014.
 - Review current reserve philosophy.
 - Request endorsement by Board of Trustees.



Unpaid Claims Liabilities and Reserves as of June 30, 2014 Net Amount of Available Assets in Excess of Plan's Liability Requirements and Reserve Needs

- As of June 30, 2014, there were approximately \$55.6 million in total assets available (\$4.3 million of which is dedicated to the Wellness program and \$2.1 million of which is for STD, an employee-pay-all program) to cover the Plan's liability requirements and reserve needs.
- This amount accounts for restricted assets and fully covers the liabilities for unpaid claims, the reserve for the excess COBRA expense, the claims fluctuation reserve, and the premium deficiency reserves.
- The recommended Plan reserve of \$40.5 million at June 30, 2014 is 93% of the \$43.5 million the County is holding in net assets available (excluding STD and Wellness assets) as of June 30, 2014.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Net Amount of Available Assets in Excess of Plan's Liability Requirements and Reserve Needs (cont'd)

Measurements as of June 30, 2014	STD	Wellness	All Other	Total
1. Available assets	\$ 2,133,375	\$ 4,275,102	\$49,218,015	\$55,626,492
2. Accrued liabilities	\$ 19,266	\$ 97,061	\$ 5,680,425	\$ 5,796,752
3. Other current liabilities	\$ 0	\$ 0	\$ 0	\$ 0
4. Restricted reserves (Health Select)	\$ 0	\$ 0	\$ 0	\$ 0
5. Net amount of assets available to cover Plan's liability requirements and reserve needs (1-2-3-4)	\$ 2,114,109	\$ 4,178,041	\$43,537,590	\$49,829,740
6. Unpaid claims liabilities and reserves (includes PDR) as of 6/30/2014, including reserve for claim fluctuation of 150% (250% for STD) of the net underwriting risk component of RBC	\$ 1,217,252	\$ 0	\$40,527,963	\$41,745,215
7. Net amount of assets, in excess of reserves, available to cover Plan's liability requirements and reserve needs (5-6)	\$ 896,857	\$ 4,178,041	\$ 3,009,627	\$ 8,084,525

Year-Over-Year Analysis of Liabilities and Reserves

		Liabilities and Reserves As Of:				
Coverage		June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	Dec. 31, 2010
1.	Liability for medical claims	\$10,234,621	\$ 6,995,779	\$ 9,788,420	\$10,991,704	\$ 7,388,797
2.	Liability for prescription drug claims	\$ -	\$ -	\$ -	\$ -	\$ -
3.	Liability for dental claims	\$ 553,998	\$ 466,041	\$ 484,345	\$ 409,517	\$ 397,111
4.	Liability for vision claims	\$ 143,530	\$ 161,597	\$ 107,576	\$ 91,554	\$ 62,940
5.	Liability for behavioral health claims	\$ 226,157	\$ 293,591	\$ 231,766	\$ 178,642	\$ 184,573
6.	Liability and reserve for STD benefits	\$ 528,991	\$ 369,938	\$ 323,861	\$ 443,654	\$ 390,197
7.	Subtotal for 1+2+3+4+5+6	\$11,687,297	\$ 8,286,946	\$10,935,967	\$12,115,071	\$ 8,423,618
8.	Liability for unpaid claims adjustment administrative expense	\$ -	\$ -	\$ -	\$ 175,000	\$ 175,000
9.	Reserve for large claims	\$ 4,781,520	\$ 3,296,724	\$ 3,273,892	\$ 2,722,850	\$ 847,875
10.	Reserve for excess COBRA expense beyond the premiums for those enrolled in COBRA as of July 1	\$ 195,703	\$ 245,625	\$ 205,841	\$ 244,089	\$ 314,768
11.	Reserve for claims fluctuation	\$17,365,711	\$15,393,768	\$25,647,270	\$24,843,470	\$ 9,720,500
12.	Premium deficiency reserves	\$ 7,714,984	\$ 1,000,000	\$ -	\$ -	\$ -
13A.	Liability for earned but unpaid performance incentives	\$ -	\$ -	\$ -	\$ -	\$ -
13B.	Reserve for maximum potential performance incentives	\$ -	\$ -	\$ -	\$ 20,000	\$ 1,097,500
14.	Total for 7+8+9+10+11+12+13A+13B	\$41,745,215	\$28,223,063	\$40,062,970	\$40,120,480	\$20,579,261

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Overview

- Mercer has been retained by Maricopa County to value self-funded unpaid claims liabilities and reserves as of June 30, 2014, and potential self-insured risks beyond unpaid claims liabilities.
- The Plan provides medical, prescription drug, dental, vision, behavioral health, and short-term disability (STD) coverage for approximately 11,500 employees and two retirees:
 - For this coverage, the unpaid claims liability and claims reserve represents costs that are already incurred by means of health care services that have already been provided or disablements that have already occurred, but for which the Plan has not yet paid.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

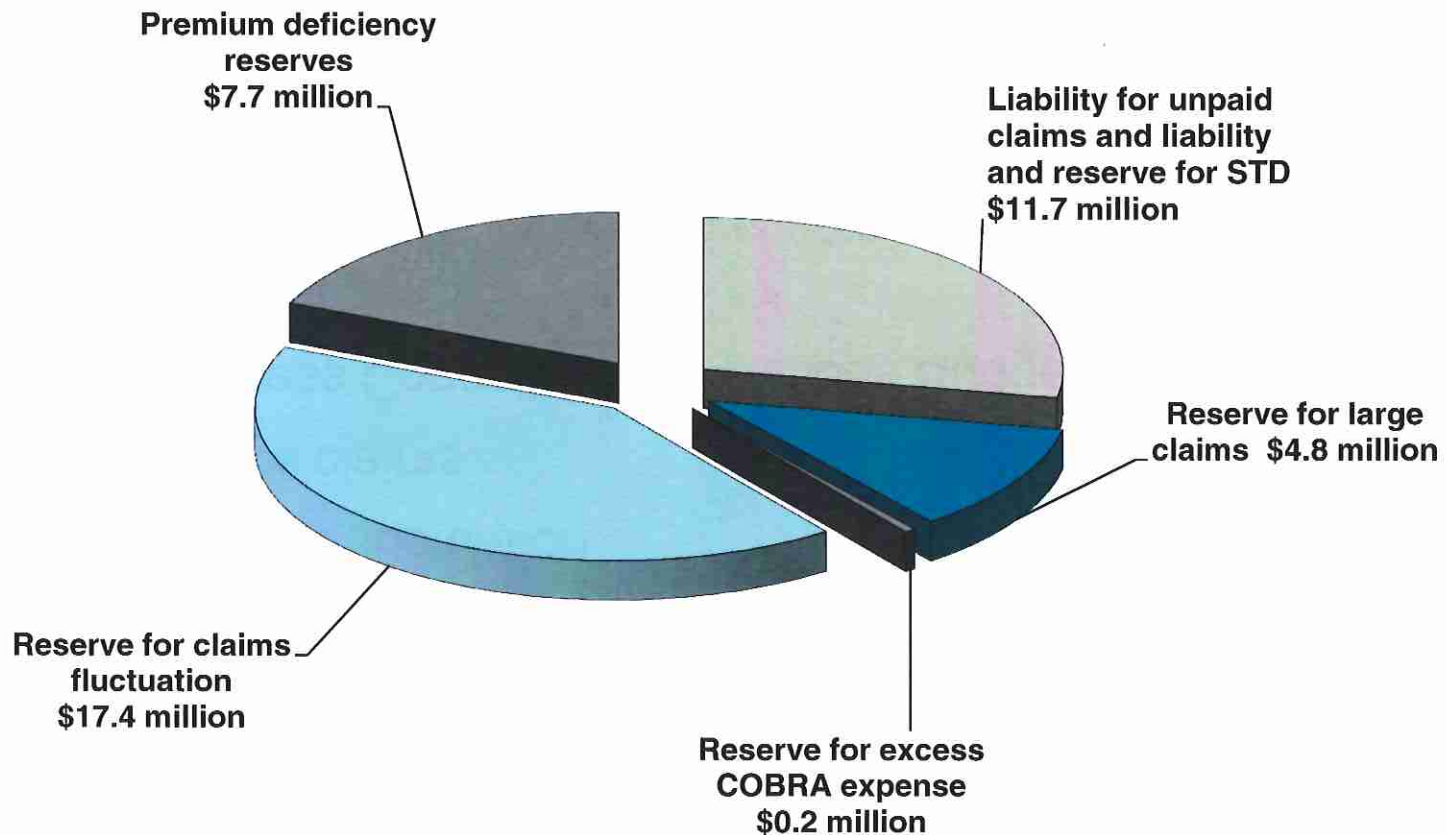
Overview (cont'd)

- Potential self-insured risks beyond the unpaid claims liabilities include:
 - Reserves for claims fluctuation.
 - Reserves for large claims.
 - Reserves for excess Consolidated Omnibus Budget Reconciliation Act (COBRA) expense.
 - Reserves to cover liability for unpaid claims adjustment administrative expense (if any).
 - Premium deficiency reserves (if any).
 - Reserve for performance incentives (if any).

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Liabilities and Needed Reserves

Total liabilities and reserves as of June 30, 2014 of \$41.7 million



Unpaid Claims Liabilities and Reserves as of June 30, 2014

Reserve for Claims Fluctuation

- Based on a risk-based capital (RBC) approach of provisions set forth by insurance regulating bodies to maintain reasonable solvency levels.
- Takes into account specific information related to the County's types of coverage offered, claim levels, funding sources, and Plans' provider contracts.
- In Mercer's opinion, it is appropriate for the County to target 150% (250% for STD) of the company action level (CAL) RBC underwriting risk component for the underwriting risk reserve:
 - 86% of health insurers have surplus of 150% of CAL or more.
 - The County is no longer purchasing specific stop-loss insurance.
 - All medical benefit options, in order to comply with the Affordable Care Act, have an **unlimited** dollar benefit.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Reserve for Claims Fluctuation (cont'd)

- No requirement to hold such a reserve, so holding this reserve is a County management decision:
 - Result of RBC calculation (excluding STD) is \$17,031,381 at 150% CAL level (equivalent to 13.7% of annual paid claims).
 - Result of RBC calculation for STD is \$334,330 at 250% CAL level (equivalent to 13.0% of annual paid claims).



Unpaid Claims Liabilities and Reserves as of June 30, 2014

Reserve for Large Claims

- Effective July 1, 2011, the County eliminated its specific stop-loss insurance.
- Mercer is recommending the County establish a reserve to provide a means of smoothing recognition of the costs of large claims over periods of more than a year.
- The large claims reserve is based on expected claims developed from Mercer's national large claim model.

	Based on a \$400,000 Attachment Point	
1. Expected claims costs per employee, per month	\$	34.80
2. June 2014 enrollment annualized employee-months		137,400
3. Initial reserve level = 1 x 2		\$4,781,520

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Reserve for Excess COBRA Expense

- When former employees elect to continue their benefits under COBRA, they pay 102% of the total premium.
- Depending on the circumstance, the COBRA continuation can extend up to 36 months.
- This 102% premium is not expected to cover the costs of the benefits because, on average, those who elect a COBRA extension of benefits have about 50% higher than average claims.
- The COBRA reserve is the expected shortfall of future premiums compared to future expenses for all those who are on the COBRA extension of benefits as of the valuation date.
- As of June 30, 2014, the reserve for excess COBRA expense is \$195,703.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Premium Deficiency Reserve (PDR)

- A PDR is established as of June 30, 2014 to recognize that:
 - Premiums in effect for fiscal year 2015 (FY15) are now expected not to cover FY15 claims and administrative expense:
 - Administrative expense rates are known.
 - Expected claims are based on projections from claims paid through July 2014.
 - The shortfalls for STD and for the combination of all other health benefits are calculated separately to produce the two PDRs:
 - A small portion of the medical and drug shortfall is netted against the expected excess for behavioral health, dental, and vision.
 - A small portion of the 60% STD benefit shortfall is netted against the expected excess for the 40% and 50% STD benefits.
- The premium rates for FY16 have not yet been finalized:
 - If, as has been assumed, the rates would be expected to cover FY16 expenses, then there would be no need for additional PDR.
 - But, if they are expected to provide less revenue than FY16 expense, then the expected shortfall would be additional PDR.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Liability for Claims Incurred But Not Paid for Health Benefits

- Liability for claims incurred but not paid:
 - The Plan incurs a liability when a covered employee or dependent receives medical, prescription drug, dental, vision, or behavioral health care that is covered under the terms of the Plan.
 - Actual payment to the provider or to the employee may occur within a few weeks or as much as 12 or more months later, although the majority of claims unpaid at any point in time are from the most recent three months.
 - The unpaid claim liability as of the end of an accounting period is essential to accurately measure the Plan's financial position.

Coverage	Incurred But Not Paid
Liability for medical claims* (1.04 months of claims)	\$10,234,621
Liability for prescription drug claims	\$ 0
Liability for dental claims (1.73 months of claims)	\$ 553,998
Liability for vision claims (1.24 months of claims)	\$ 143,530
Liability for behavioral health claims (2.04 months of claims)	\$ 226,157
Total	\$11,158,306

*Not adjusted for the approximately \$5.9 million receivable for the overpayment of Cigna Medical Group primary care capitation, which is accounted for as an asset.

Unpaid Claims Liabilities and Reserves as of June 30, 2014

Liabilities and Reserves for STD Benefits

- Liability and reserve for STD benefits:
 - STD provides benefits up through the twenty-sixth week following disability.
 - Benefits commence after a two-week elimination period (no elimination period for inpatient hospitalization).
 - Cost for STD is paid entirely by employees; there is no employer contribution.
 - Liabilities and benefits the Plan owes, but has not paid as of the valuation date, include IBNR, RBUC, and due and unpaid claims.
 - The reserve for the present value of amounts not yet due provides for payments beyond the valuation date on disablements that occurred by the valuation date.

	Dollars
Claims incurred but not reported (IBNR)	\$ 74,993
Reported but unpaid claims (RBUC)	\$ 93,387
Due and unpaid claims	\$ 9,905
Present value of amounts not yet due	\$350,706
Total STD claim liability and reserve (2.46 months of claims)	\$528,991

QUESTIONS?





Services provided by Mercer Health & Benefits LLC.

